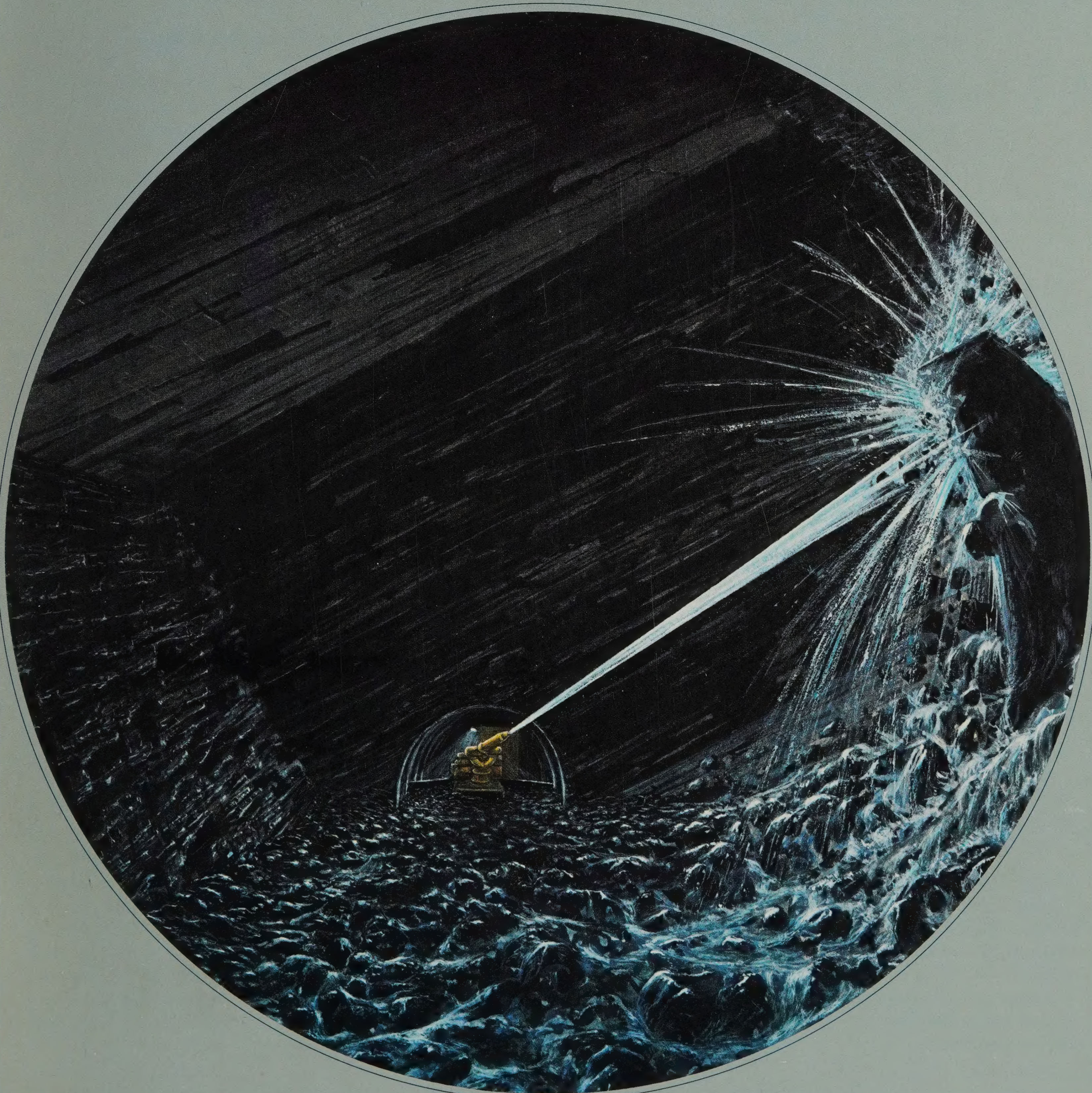
Kaiser Resources Ltd.

Annual Report 1975



Kaiser Resources Ltd., a publicly-held company incorporated in British Columbia, is primarily a producer of metallurgical coal used in steel making. The Company operates both surface and underground mines and coal processing facilities at Sparwood, British Columbia. It also operates the Pacific Coast port of Roberts Bank, near Vancouver, through its wholly-owned subsidiary, Westshore Terminals Ltd.

Contents

Executive Offices
2600 Board of Trade Tower
1177 West Hastings Street
Vancouver, B.C.
V6E 2L1

Mining Operations
Box 2000
Sparwood, B.C.
V0B 2G0

Port Operations
Westshore Terminals Ltd.
Roberts Bank
Delta, B.C.
V4K 3N2

Annual Meeting
The annual meeting of shareholders will be held on May 25, 1976 at the Bayshore Inn, 1601 West Georgia Street, Vancouver, B.C. at 11:00 a.m. local time.

Form 10-K
A copy of the Form 10-K, filed with the United States Securities and Exchange Commission, is available without charge upon request to the Public Affairs Department at the Company's executive offices in Vancouver, British Columbia.

The Cover
Kaiser Resources Ltd. operates North America's only underground coal mine using the hydraulic mining technique. Considered to be one of the most efficient underground coal mining methods, hydraulic mining uses water under high pressure to cut the coal from sloping seams. Over 10 percent of Kaiser Resources' total coal production is mined using this advanced technology.

Highlights

	1975	1974
Coal shipments — tons	5,593,000	5,459,000
Sales	$259,870,000	$142,597,000
Net earnings	$ 71,229,000	$ 24,158,000
Weighted average number of shares outstanding	25,158,000	23,954,000
Net earnings per share:		
Net earnings	$ 2.83	$ 1.01
Fully diluted net earnings	$ 2.66	$ .94
Dividends per share	$ .75	$ —
Cash flow	$ 99,340,000	$ 40,604,000
Working capital	$ 66,315,000	$ 11,517,000
Capital expenditures	$ 21,416,000	$ 10,186,000
Total assets	$261,869,000	$163,511,000
Total long-term debt	$ 18,980,000	$ 28,738,000
Number of shareholders	5,390	3,957
Number of employees	2,008	1,960
Employment costs	$ 37,775,000	$ 29,639,000

Tonnage figures in this report represent long tons of 2,240 pounds unless otherwise stated.

Financial information presented above should be read in conjunction with the consolidated financial statements and other financial data included in this report.

To Our Shareholders

Kaiser Resources achieved record earnings, sales revenue and production in 1975.

Consolidated net earnings more than doubled to $71.2 million or $2.83 per share from $24.2 million or $1.01 per share in 1974. Sales increased to $260 million, up 82 percent from 1974. The dramatic improvement in earnings and sales resulted primarily from negotiated base price increases and cost escalation increases obtained under the long-term sales contract with our Japanese customers. During 1975 the price for our metallurgical coal rose by 73 percent to $52.40 per ton.

Production of clean metallurgical coal improved 12 percent to 5.6 million tons.

Marketing

Although worldwide steel production began a sharp decline in the second quarter of 1975, the Company and its Japanese customers concluded agreements to increase the annual volume of metallurgical coal under the long-term sales contract. The agreements with Mitsubishi Corporation provide for a total increase of 250,000 tons a year in two stages — to 4.6 million tons in 1975 and to 4.75 million tons annually, plus or minus five percent, effective April 1, 1976.

Looking forward, the Japanese market should be viewed cautiously in the near term. Sharply curtailed steel production has diminished the demand for metallurgical coal. There are slight signs of recovery in the Japanese economy but little increase in demand can be expected before late 1976.

We recently concluded negotiations with our Japanese customers and an agreement was reached to reduce the base price of our metallurgical coal by $1.50 per ton, effective April 1, 1976. Under the agreement, the Company will continue to receive escalation to cover cost increases. The new contract calls for an April 1, 1977 price review, subject to arbitration in the event of no agreement. Taking the price reduction into consideration and after the application of pending or approved escalation for mineral land taxes, materials, labor and pension cost increases, the price of coal under the contract is expected to be approximately $53.30 per ton, retroactive to April 1, 1976. Tonnage under the contract remains unchanged.

We are successfully pursuing other international opportunities. We have concluded a five-year agreement beginning in 1976 to deliver 1.3 million tons of metallurgical coal to a Korean steel company. We expect to amend this agreement to increase the amount to 4.1 million tons between 1976 and 1985. The Company has also agreed to sell 475,000 metric tons to a Mexican steel company over three years beginning in 1976. A trial shipment of 50,000 metric tons was sold to Italy in March of 1976 and could lead to a long-term arrangement.

Our marketing policy is to seek long-term contracts which offer a stable base for earnings and employment, rather than short-term sales contracts.

Opportunities

As we enter the last quarter of the 20th century we can expect a continued rise in worldwide industrial production and in the demand for steel and coal.

Given this favorable outlook, our operating experience and our sound financial base, we are evaluating expansion opportunities in coal mining as well as seeking other opportunities for corporate growth.

Recent advances in underground hydraulic mining offer exciting opportunities for future growth. Later this year, in cooperation with Mitsui Mining Company, Limited, of Japan and Mitsubishi Corporation, we expect to complete a feasibility study, started in 1974, which could lead to the development of a new underground coal mine on our property. This new mine would use the hydraulic mining method. Another potential area of expansion involves extending the limits of the Company's surface mining operation to lengthen the life of the mine.

There is considerable interest around the world in Kaiser Resources' hydraulic mining process. Since late 1974 the Company has been working in conjunction with the Soviet Union and Mitsui Mining to market the hydraulic coal mining technology of the three parties. To date, three companies have signed sub-licenses to acquire the technology and technical assistance for proposed underground mines, and numerous other companies have expressed interest. Any royalties received under these sub-licenses will be shared equally among Kaiser Resources, the Soviet Union and Mitsui Mining.

Dividends

An initial quarterly dividend of 15 cents per share was paid in the first quarter of 1975. The Company's sound financial condition permitted an increase in the dividend to 20 cents per share in each of the following three quarters of 1975 and the first quarter of 1976. Under the Federal Government's

Anti-Inflation Act, the Company is restricted to a maximum annual dividend of 80 cents per share in the 12-month period ending October 13, 1976. The degree of restriction that will apply to dividend payments after that date has not yet been announced by the government.

Ownership

In October 1975, Kaiser Steel Corporation sold two million of its shares in Kaiser Resources to the Canadian public. This sale of shares increased public ownership of Kaiser Resources at year end to 24.9 percent from 10.5 percent at the end of 1974 and reduced Kaiser Steel's holdings to 47.1 percent from 59.3 percent.

People

The Company's overall performance in 1975 is evidence of the dedicated and highly efficient manner in which our people accept and carry out their responsibilities. We believe that any company is only as good as its people. In our case, we are extremely proud of what our people have accomplished by working together under challenging conditions.

Kaiser Resources has good safety and training programs, both of which showed considerably improved results in 1975. The success of these programs, as well as the success of all of the Company's programs, is due to the proven ability of our people to work together as a team. A company as young as ours — just nine years old — could not have become the dominant force in the coal mining industry that it is today without their efforts, or without their spirit.

With people of this spirit and with the continued support of our partners and customers, we look to the future with a great deal of confidence that we may continue to improve the performance of Kaiser Resources.

April 15, 1976

Edgar F. Kaiser,
Chairman

Edgar F. Kaiser, Jr.
President and
Chief Executive Officer

Edgar F. Kaiser — Edgar F. Kaiser, Jr.

Operations Review

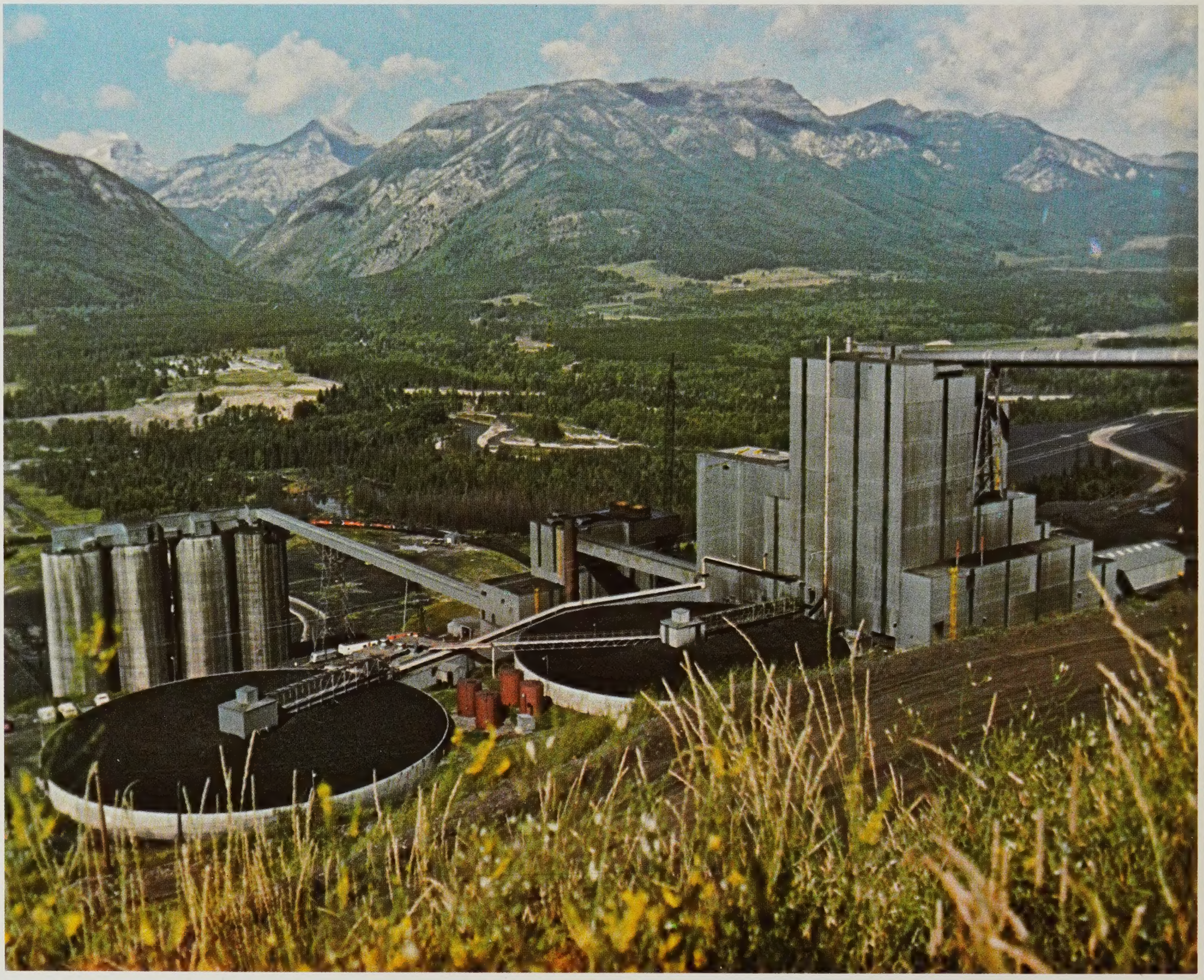
Record Production

Record production was achieved for the second consecutive year at Kaiser Resources' coal mining and processing operations in southeastern British Columbia.

The Elkview coal preparation plant processed 5.6 million tons of clean metallurgical coal, compared with 5 million tons in 1974 and 4.5 million tons in 1973. The increased production resulted from improved rail transportation from the clean coal storage silos at Sparwood to Westshore Terminals' port facilities at Roberts Bank, and from improved operating efficiency.

Production of raw metallurgical coal from surface mining operations increased to a record 6.5 million tons in 1975 from 5.6 million tons in 1974. More efficient coal recovery methods, the addition and replacement of equipment, improved operator productivity and good maintenance of haul roads were among the many factors which contributed to the increase.

Purchases of new surface mining equipment in 1975 included two 200-ton trucks, a 15-cubic-yard shovel, one drill and two large front-end loaders. Two major programs to increase the availability of surface mining equipment will be completed this year. A front-end conversion program for the 25-cubic-yard shovels will improve loading capability and reduce maintenance, and a program to line the



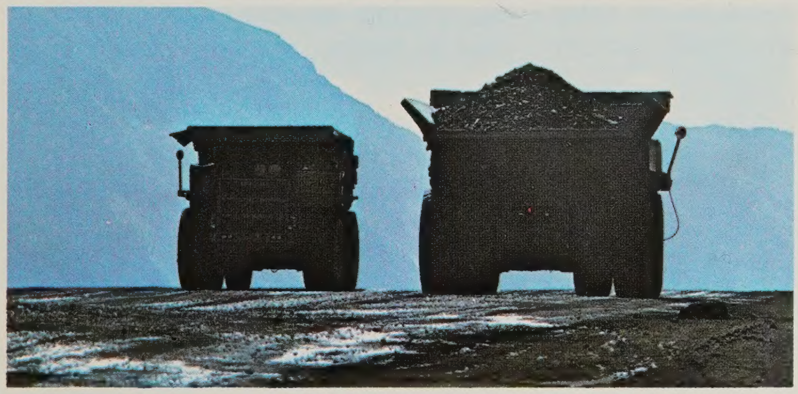
The Elkview coal preparation plant, which processes raw coal to reduce ash and moisture, has produced at record levels for the past two years. Production in 1975 totalled 5.6 million tons of clean metallurgical coal.

floors of the boxes of the 200-ton trucks with a five-inch thick layer of rubber will reduce maintenance by cushioning the shock of impact during loading.

During the year, a new pit on Baldy Ridge became operational and will increase production by approximately 250,000 tons of coal a year for six years.

Production of raw metallurgical coal from the two underground mines reached the million-ton mark in 1975. The hydraulic mine produced a record 841,000 tons, while the conventional underground mine accounted for the balance.

Coke production at the Michel by-products plant rose slightly to 145,000 tons in 1975, while thermal coal production increased from 411,000 tons to 446,000 tons.



Bulldozers, front-end loaders and trucks work together in surface mining coal recovery operations. The trucks haul the coal to a central breaker station where it is reduced in size before being conveyed to raw coal silos at the preparation plant.

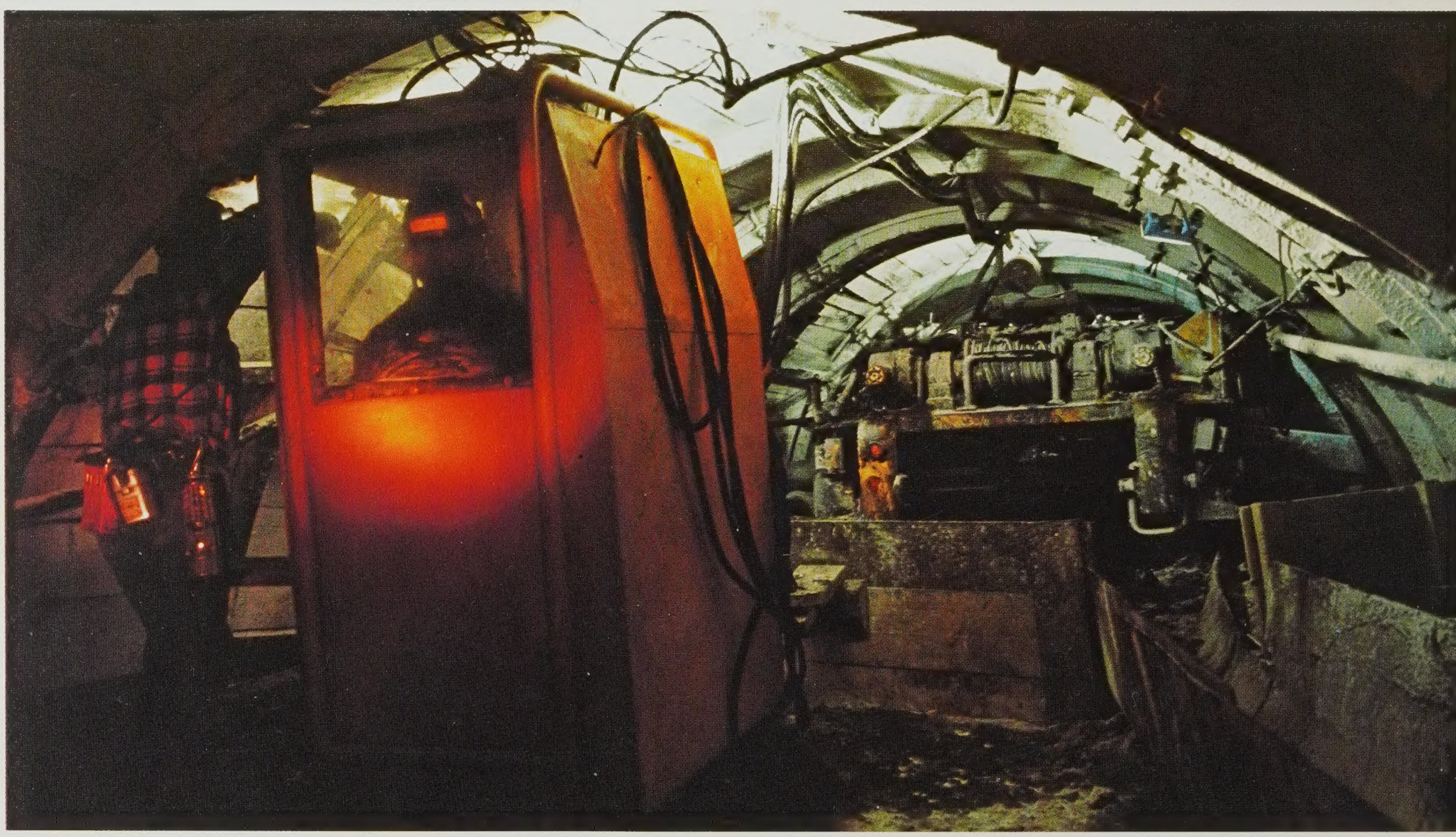
Hydraulic Mining

Kaiser Resources has been operating North America's only hydraulic coal mine for the past six years. The hydraulic method for underground mining is used to extract coal from steeply-pitched seams. Coal is cut and dislodged by a high-pressure water jet and then flumed out of the mine by gravity in slurry form. It is then separated from the water in a dewatering plant located in a valley below the portal of the mine. The water is filtered and pumped back into the mine to be used again in the mining process.

Hydraulic mining has advantages over conventional underground mining methods, in that substantially greater coal recovery is possible. Also, working conditions are safer and healthier because miners work at a distance from the coal face and the use of water eliminates dust. The Company holds patent rights for its coal mining technology in Canada and has patents pending in several other countries.

The Company is now developing a new section of the hydraulic mine. This new section differs from the one currently being mined in that the seam is located below the level at which it would be possible to flume the coal out of the mine entirely by gravity. The coal will be flumed from the coal face to a dewatering plant constructed underground below the portal of the mine where it will be screened and partially dewatered. The coarse fraction will be transported upward to the surface by conveyor belt while fine coal will be pumped up in the form of slurry. Another feature of the new section will be an underground monorail system to transport employees and supplies between the surface and the working areas of the mine. Total cost of the project is estimated to be $40 million.

Production from the new section will be an estimated 1.2 million tons of raw coal a year for 13 years beginning in 1978, at which time reserves from the section presently under production will be depleted. During 1975 the surface dewatering facilities were expanded and improved, providing a capacity



In the hydraulic mine, the monitor operator is located in this protective cabin at least 40 feet away from the working coal face. The operator determines by sound whether the water jet he controls is striking coal or rock.

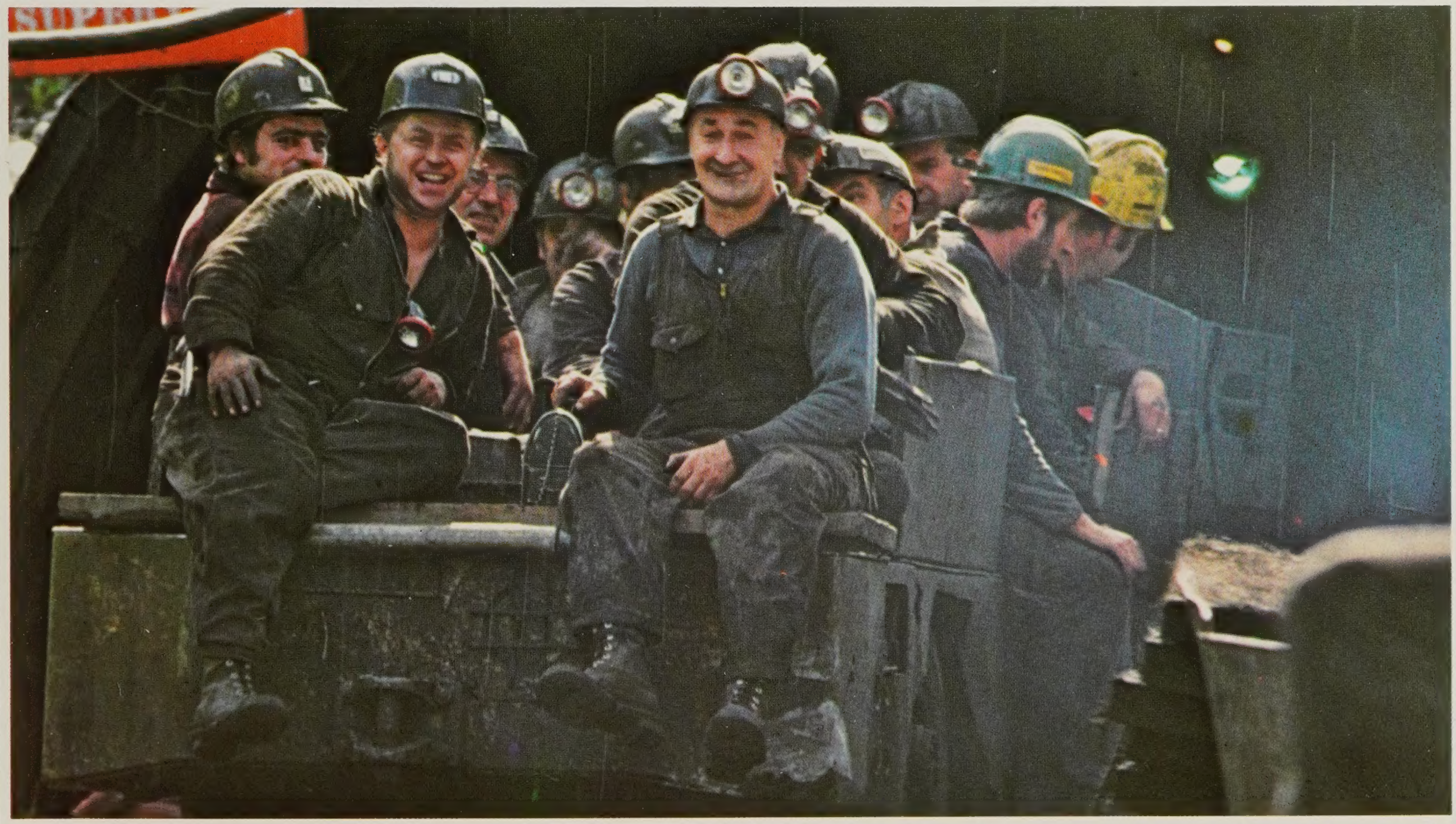
which will be sufficient to accommodate the projected output of the new section of the hydraulic mine.

Mine Under Study

A feasibility study which could lead to development of a new underground metallurgical coal mine in partnership with Mitsubishi Corporation and Mitsui Mining is expected to be completed during 1976. The study involves the Hosmer-Wheeler area of the Company's property, about five miles south of existing operations.

If results of the study prove favorable and the partners decide to proceed, the new hydraulic mine and related surface washing and drying facilities would produce approximately 2 million tons of clean coal annually beginning in late 1979 or early 1980. Completion of the study was delayed last year after it was determined that additional exploration work was required.

The Hosmer-Wheeler project is owned 70 percent by Kaiser Resources, 25 percent by Mitsui Mining and 5 percent by Mitsubishi. Kaiser Resources is contributing 50 percent of the capital and is managing the project.



Employees begin journey underground at the start of a shift in the hydraulic mine. A new section of the hydraulic mine now under development will include a monorail system to transport employees and supplies between the surface and the working areas of the mine.

Environmental Programs

Reclamation and environmental control programs to protect the environment at the mine and port facilities continue to make substantial progress. Operating costs and capital expenditures under these programs totalled $875,000 in 1975.

Reclamation work on approximately 435 acres of mined land and 117 acres of exploration roads was carried out during the year, increasing the total area in various stages of reclamation to approximately 1,200 acres.

Since 1970, Kaiser Resources has planted more than 300,000 trees. Work completed during 1975 included the planting of 40,000 trees and seeding of 300 acres in grass. Preparation of 63 acres for seeding in 1976 involved the moving of more than one million cubic yards of material by terracing and contouring. The practise of terracing spoil piles to reduce the slope for proper seed propogation is considered highly successful in reclaiming steeply-sloped mining areas.

The Company's greenhouse facilities were improved during the year and a new nursery was established to provide additional capacity for the development of planting stock.

During 1976, research will continue to compare various species of vegetation produced on reclaimed and native land, and on the use of reclaimed areas by wildlife.

Under the Company's environmental control program, which is conducted within the framework of provincial and federal environmental guidelines, coal-carrying rail cars are sprayed with a dust suppressant. A governmental study of the spraying procedure concluded that the method is successful in controlling coal dust emissions from trains in transit to the Roberts Bank port.

To reduce the cost of spraying coal cars, the Company has designed a facility to manufacture a dust suppressant from coal tar produced at the Michel by-products plant. The new facility will be constructed at the Elkview preparation plant loading site during 1976 and will include an automatic spraying system.

Substantially improved results were achieved during 1975 in the air and water quality monitoring programs at the Elkview preparation plant. However, the quality of air at the Michel by-products plant, which was constructed more than 40 years ago, continues to be an area of concern which the Company has under study.

At the Roberts Bank port facilities, further improvements were made in

Vegetation flourishes in an abandoned surface mine reclaimed by Kaiser Resources. Reclamation, an integral part of the Company's coal mining operations, has been carried out on approximately 1,200 acres of land since 1970.

the system for washing empty rail cars to remove residual coal dust. Environmental work at Roberts Bank also includes an air quality control system and facilities for spraying coal stockpiles to control dust.

Community Development

The community of Sparwood experienced further growth during 1975 with the development of additional residential lots, a new mobile home park, construction of a curling rink as part of the Sparwood recreation complex, and the opening of a new hotel.

Forty of the 63 new residential lots developed by the District of Sparwood were purchased for the construction of homes for employees of Kaiser Resources and their families. The Company's 114-unit mobile home park was occupied almost entirely by the end of the year. Most of the houses and mobile homes were purchased under Kaiser Resources' housing assistance program of forgiveable non-interest bearing mortgage loans.

The Company has contributed a total of $455,000 as one-third of the cost of completing the Sparwood Recreation Centre. The centre comprises the curling rink, an arena and other facilities for community activities.

During 1975 the Company engaged a British Columbia research firm to conduct a socio-economic study of the Sparwood area, giving special consideration to the impact the proposed Hosmer-Wheeler mine would have on the area. The new project would employ approximately 650 people. The study is attempting to identify needs for housing, schools, hospitals, recreation and other community services and facilities.

Early in 1976 the District of Sparwood received provincial government approval for a boundary extension to include the Company's Elkview preparation plant. The added tax base gained by the District is expected to be of substantial future benefit to the community.

A beautified property in the residential area of Sparwood, where most employees of Kaiser Resources live. Founded in the mid-1960s, Sparwood has replaced the neighbouring old coal mining towns of Natal and Michel.

Employees

Kaiser Resources and its subsidiaries paid $38 million in wages, salaries and benefits during 1975 and employed approximately 2,000 people at the end of the year.

New two-year collective agreements, effective January 1, 1976, were reached between the Company and the United Mine Workers of America, representing approximately 1,500 hourly-paid production and maintenance employees, and between the Company and the Office and Technical Employees' Union, representing 110 administrative and technical employees at the mine. Both agreements have been submitted to the Anti-Inflation Board for review.

Port Operations

Westshore Terminals Ltd., Kaiser Resources' wholly-owned subsidiary which operates bulk-loading facilities at the port of Roberts Bank, shipped 8.2 million tons of coal, coke and related products during 1975. The port handled 5.2 million tons of the Company's coal and 3 million tons of products from other companies. A total of 139 ships were loaded at Roberts Bank during the year.

As a result of record production at the mine and high rail movement of coal to the port, the Company's inventory of metallurgical coal at Roberts Bank totalled 699,000 tons at December 31, 1975, compared with 140,000 tons a year earlier.

The port of Roberts Bank, a 50-acre site south of Vancouver, is operated by Westshore Terminals Ltd., a subsidiary of Kaiser Resources. The port, capable of loading ships as large as 150,000 deadweight tons, handled a record 8.2 million tons of coal, coke and related products during 1975.

Financial Summary

Higher Earnings

Consolidated net earnings in 1975 rose to $71.2 million or $2.83 per share, including an extraordinary income tax credit of $7.2 million or 29 cents per share. Earnings per share were based on a weighted average of 25,158,000 shares outstanding during the year.

The results compare with 1974 consolidated net earnings of $24.2 million or $1.01 per share, including an extraordinary income tax credit of $11.5 million or 48 cents per share.

The extraordinary income tax credits in 1975 and 1974 reflect the reduction in income taxes otherwise payable for those years as a result of the application of prior years' loss carry-forwards. Loss carry-forwards were fully utilized during 1975 and, as a result, no further extraordinary income tax credits will be earned in 1976.

Sales and Markets

Sales during 1975 totalled a record $259.9 million, an 82 percent increase over 1974 sales of $142.6 million. This substantial improvement resulted primarily from higher prices charged for the Company's products.

The price of metallurgical coal sold under the Company's long-term contract with Mitsubishi Corporation for use by the Japanese steel industry rose from $30.24 per ton at January 1, 1975 to $52.40 at December 31, 1975. Of the increase, $17.16 represented negotiated price increases and $5.00 represented increases in costs recoverable under the escalation provisions of the contract.

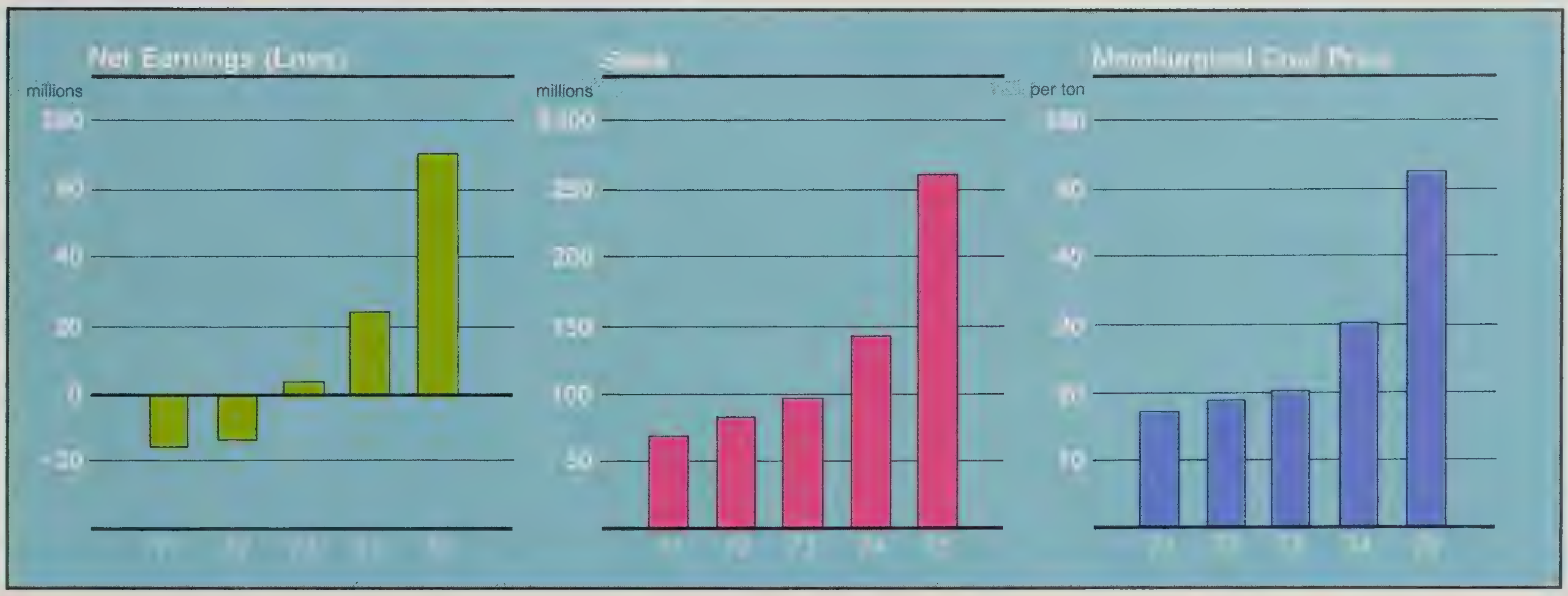
The Company negotiated increases during the year in the annual tonnage of metallurgical coal to be delivered under the sales contract with Mitsubishi Corporation. Agreements between the parties provided for increases of 100,000 tons per year beginning in 1975 and an additional 150,000 tons per year effective April 1, 1976, raising the total annual tonnage under the contract to 4,750,000 tons, plus or minus five percent. The contract extends to 1985.

In recent negotiations, the Company and its Japanese customers agreed to reduce the price of coal under the contract by $1.50 per ton, effective April 1, 1976. Under this agreement, escalation applications are permitted for cost increases relating to labor and pensions, materials and taxes other than mineral land taxes, subject to a ceiling of $2.00 in the 12 months ending March 31, 1977. Escalation will continue to be allowed outside the ceiling to fully cover cost increases under the contract for mineral land taxes and rail freight. Escalation for port costs will be limited to two cents per year.

The Company has pending or approved price escalation to cover increases in mineral land taxes, materials, labor and pension costs. After the application of this escalation and taking into account the price reduction, the price of the Company's coal is expected to be approximately $53.30 per ton, retroactive to April 1, 1976. The new agreement provides for a review of the price to be effective April 1, 1977, subject to arbitration should the parties fail to reach agreement. Tonnage provisions of the contract remain unchanged.

During 1975, the Company concluded a contract with Mitsubishi Corporation to provide 100,000 tons of thermal coal per year for use by a Japanese steel producer in a new coke-making process. The contract is renewable annually for 10 years, subject to agreement on price.

Total export and domestic shipments of coal, coke and related products during 1975 amounted to 5.6 million tons, compared with 5.5 million tons in 1974. Of the 1975 total, 4.7 million tons was metallurgical coal sold under the long-term contract with Mitsubishi Corporation. The remaining tonnage included sales of metallurgical coal to Eastern Canadian steel mills, thermal coal to Denmark and France, and coke to customers in Canada and the United States.



In a move to further diversify its markets, the Company concluded sales contracts in early 1976 which provide new international markets for its metallurgical coal.

Under a sales contract with a steel company in the Republic of Korea, the Company shipped 50,000 tons of metallurgical coal during the first quarter of 1976 and will ship 250,000 tons annually in the five-year period beginning April 1, 1976.

In Mexico, a steel company has agreed to purchase 100,000 metric tons of metallurgical coal between February 1, 1976 and March 31, 1977, increasing to 175,000 metric tons in the contract year ending March 31, 1978 and to 200,000 metric tons in the following contract year.

The Company also arranged for a trial shipment of 50,000 metric tons of metallurgical coal in the first quarter of 1976 to a steel plant in Italy.

Higher Taxes

In 1975 the Company made provisions for the payment of income and other taxes of $61.6 million to federal, provincial and municipal governments, compared with $17.9 million in 1974.

Income and mining taxes accounted for $54.3 million of the 1975 total. Of this amount, $33.8 million will be paid in 1976, $13.3 million has been deferred for payment in future years, and $7.2 million has been offset by income tax credits earned as a result of the application of prior years' loss carry-forwards.

Mineral land taxes, property taxes and corporation capital taxes accounted for $7.3 million of the total tax provisions in 1975, compared with $3.9 million in 1974. These taxes are reflected in general and administrative expenses in the consolidated statement of earnings. Increases in mineral land taxes, property taxes and corporation capital taxes relating to coal sold under the Company's long-term contract with Mitsubishi Corporation are covered by escalation provisions.

Cash Position

The Company's cash position increased substantially during the year as a result of its increased earnings, rising from $15.5 million at January 1, 1975 to $88.9 million at December 31, 1975. Investment of cash balances earned interest of $4.1 million during 1975.

Of the cash on hand at the end of the year, $33.8 million will be used to pay 1975 income and mining taxes while the balance will be used to meet current operating requirements and to provide a base for financing future expansion.

Capital Expenditures

Capital expenditures in 1975 totalled $21.4 million. Of this amount, $15 million was spent for the replacement and improvement of equipment and facilities in the surface mine and in the preparation plant. Most of the remainder was spent on the hydraulic mine for the expansion of surface facilities and the development of the new section of the mine scheduled for completion in 1978.

Capital expenditures for 1976 are expected to total $37 million. Approximately 40 percent of this amount will be used for the development of the hydraulic mine, while the balance will be spent for improvements to increase the capacity of the preparation plant and for the replacement of surface mining equipment. These expenditures are expected to be financed from cash generated by operations.

Lower Debt

Long-term debt was reduced during 1975 by $9.7 million to a balance of $19 million at December 31, 1975. Of the reduction in debt, $7.4 million represented payment of scheduled installments and $2.3 million represented prepayments of mortgages on properties held by the Company.

In July 1975, the Company negotiated revisions to its Canadian bank credit agreement. The main revisions resulted in the reduction of

the interest rate from 1½ to ½ percent over Canadian prime, and in the removal of restrictions on working capital and on the payment of dividends.

Public Participation

On October 7, 1975, Kaiser Steel Corporation increased public ownership of Kaiser Resources by selling two million of its shares in the Company to the Canadian public. This sale of shares by Kaiser Steel reduced its ownership of Kaiser Resources to below 50 percent.

Public ownership of the Company is further increased from time to time as publicly-held warrants and employee stock options are exercised. Holders of warrants are entitled to purchase one share in the Company at $2.85 for each warrant held. The warrants are traded on the Toronto, Montreal and Vancouver stock exchanges and expire on December 31, 1976.

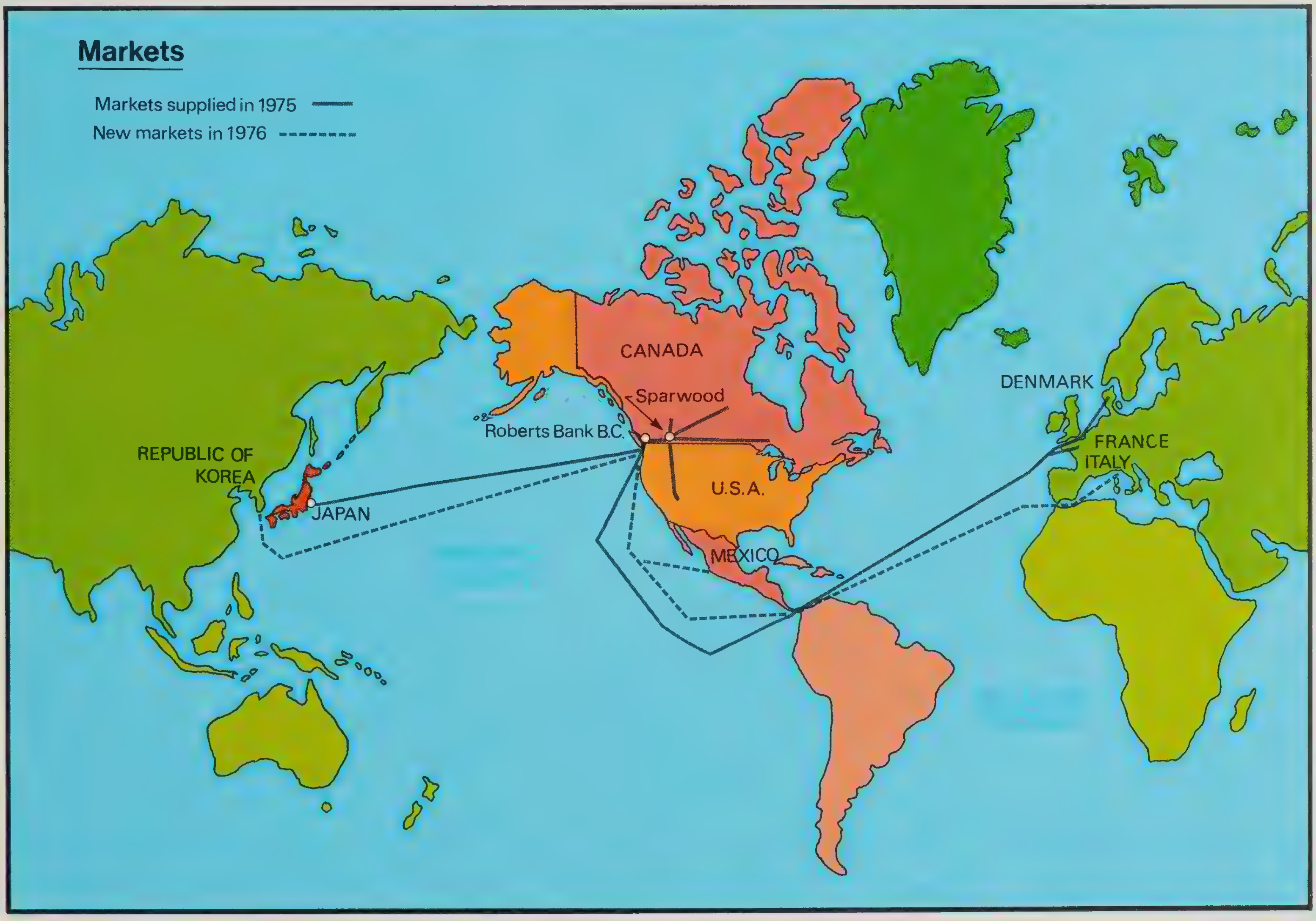
During 1975, warrants representing 1,672,045 shares and options representing 284,300 shares were exercised. The Company received $5.8 million in cash for the shares issued. At December 31, 1975, warrants representing 816,423 shares and options representing 155,400 shares remained outstanding.

If the warrants and stock options outstanding at December 31, 1975 had been exercised on that date, public ownership in the Company would have increased to 27.7 percent while the interests of Kaiser Steel and the Company's Japanese customers would have decreased to 45.4 percent and 26.9 percent, respectively.

Anti-Inflation Act

The Company is subject to the federal Anti-Inflation Act which provides for guidelines to restrain profit margins, prices, dividends and compensation in Canada.

The act limits the Company's price increases for domestic sales to cost increases incurred after October 13, 1975, restricts dividend payments to a maximum of 80 cents per share in the year ending October 13, 1976, and limits the amount of compensation paid to employees. The act does not apply to export sales prices and profit margins. More than 90 percent of the Company's 1975 sales were in the export market.



Canada: metallurgical & thermal coals, coke & by-products
Denmark: thermal coal
France: thermal coal
Italy: metallurgical coal
Japan: metallurgical & thermal coals
Korea: metallurgical coal
Mexico: metallurgical coal
United States: coke & by-products

Financial Statements

Kaiser Resources Ltd. and Subsidiaries
Consolidated Statement of Earnings
For the years ended December 31, 1975 and 1974

	1975	1974
Sales (Note B)	$259,870,022	$142,596,649
Other income — net	5,564,331	3,997,363
	265,434,353	146,594,012
Costs and expenses:		
Cost of products sold	111,053,106	87,326,648
General and administrative	18,331,615	12,299,630
Interest on long-term debt	2,535,215	5,874,916
Depreciation and depletion (Note A)	13,661,435	12,850,302
Amortization of preproduction and development costs (Note A)	1,599,732	1,594,265
	147,181,103	119,945,761
Earnings before provision for income taxes and extraordinary items	118,253,250	26,648,251
Provision for income taxes (Notes A and I)	54,253,000	13,986,000
Earnings before extraordinary items	64,000,250	12,662,251
Extraordinary items (Notes A and J)	7,229,000	11,496,000
Net earnings for the year	$ 71,229,250	$ 24,158,251

Net earnings per share (Note K):		
Basic earnings:		
Before extraordinary items	$ 2.54	$ .53
Extraordinary items	.29	.48
Net earnings for the year	$ 2.83	$ 1.01
Fully diluted earnings:		
Before extraordinary items	$ 2.39	$ .49
Extraordinary items	.27	.45
Net earnings for the year	$ 2.66	$ .94

See notes to the consolidated financial statements.

Kaiser Resources Ltd. and Subsidiaries
Consolidated Statement of Changes in Financial Position
For the years ended December 31, 1975 and 1974

	1975	1974
Source of funds:		
Earnings before extraordinary items	$ 64,000,250	$ 12,662,251
Items not requiring an outlay of funds:		
Depreciation and depletion	13,661,435	12,850,302
Amortization of preproduction and development costs	1,599,732	1,594,265
Provision for income taxes	20,512,000	13,801,000
Gain on sale of assets	(433,762)	(304,147)
Total funds provided from operations	99,339,655	40,603,671
Capital stock issued	5,844,913	32,866
Proceeds from sale of assets	796,524	2,341,984
Total source of funds	105,981,092	42,978,521
Application of funds:		
Long-term debt:		
Total repayments	9,758,253	28,704,408
Less: Repayment of installments due within the period	7,490,398	11,440,224
Repayment of debt not due within the period	2,267,855	17,264,184
Reclassified to installments due within one year	6,920,916	7,498,975
Reduction of long-term debt	9,188,771	24,763,159
Property, plant and equipment purchases	21,416,082	10,186,023
Other assets acquired	1,443,716	887,962
Dividends paid	19,134,903	—
Total application of funds	51,183,472	35,837,144
Increase in working capital (see below)	54,797,620	7,141,377
Working capital at beginning of year	11,517,238	4,375,861
Working capital at end of year	$ 66,314,858	$ 11,517,238
Summary of increase (decrease) in working capital:		
Cash and short-term deposits	$ 73,407,257	$ 5,275,305
Accounts receivable	2,268,977	1,193,436
Inventories	15,463,077	1,208,914
Prepaid expenses	(17,914)	256,704
Accounts payable	(2,249,895)	(2,770,745)
Employment costs and amounts withheld from employees	(562,530)	(1,676,684)
Income taxes payable	(33,479,186)	(144,000)
Other accrued liabilities	(601,648)	(142,802)
Installments due within one year on long-term debt	569,482	3,941,249
	$ 54,797,620	$ 7,141,377

See notes to the consolidated financial statements.

Kaiser Resources Ltd. and Subsidiaries
Consolidated Balance Sheet
December 31, 1975 and 1974

Assets

	1975	1974
Current assets:		
Cash and short-term deposits	$ 88,881,163	$ 15,473,906
Accounts receivable	4,927,388	2,658,411
Inventories (Notes A and C)	28,449,534	12,986,457
Prepaid expenses	723,595	741,509
	122,981,680	31,860,283
Property, plant and equipment — at cost (Note A):		
Land	17,218,271	17,218,271
Buildings and land improvements	53,572,457	47,973,753
Machinery and equipment	104,885,948	87,746,547
Construction work-in-process	4,120,034	6,566,687
	179,796,710	159,505,258
Less: Accumulated depreciation and depletion	61,133,210	48,291,045
	118,663,500	111,214,213
Other assets	5,425,798	4,039,484
Deferred preproduction and development costs less amounts amortized (Note A)	14,797,692	16,397,424
	$261,868,670	$163,511,404

On behalf of the Board:

Edgar F. Kaiser, Jr., Director *Ian N. McKinnon,* Director

Consolidated Statement of Shareholders' Equity
For the years ended December 31, 1975 and 1974

	Capital Stock			
	Shares Issued	Amount	Contributed Surplus	Retained Earnings
Balance January 1, 1974	23,947,368	$ 23,947,368	$ 68,729,879	$ 2,756,505
Net earnings — 1974	—	—	—	24,158,251
Shares issued upon exercise of warrants (Note E)	11,532	11,532	21,334	—
Balance December 31, 1974	23,958,900	23,958,900	68,751,213	26,914,756
Net earnings — 1975	—	—	—	71,229,250
Shares issued upon exercise of:				
Warrants (Note E)	1,672,045	1,672,045	3,093,283	—
Options (Note E)	284,300	284,300	795,285	—
Dividends — $.75 per share (Note G)	—	—	—	(19,134,903)
Balance December 31, 1975	25,915,245	$ 25,915,245	$ 72,639,781	$ 79,009,103

See notes to the consolidated financial statements.

Liabilities and Shareholders' Equity

	1975	1974
Current liabilities:		
Accounts payable	$ 9,596,460	$ 7,346,565
Employment costs and amounts withheld from employees	4,274,701	3,712,171
Income taxes payable	33,664,186	185,000
Other accrued liabilities	2,201,650	1,600,002
Installments due within one year on long-term debt	6,929,825	7,499,307
	56,666,822	20,343,045
Deferred income taxes (Note I)	15,588,000	2,305,000
Long-term debt (Note D)	12,049,719	21,238,490
Shareholders' equity:		
Capital stock (Note E)		
Authorized 28,000,000 common shares of $1 par value each		
Issued and fully paid 25,915,245 shares (23,958,900 in 1974)	25,915,245	23,958,900
Contributed surplus (Note F)	72,639,781	68,751,213
Retained earnings from July 1, 1973 (Notes F and G)	79,009,103	26,914,756
	177,564,129	119,624,869
Commitments and contingencies (Notes H, M, N and O)		
	$261,868,670	$163,511,404

See notes to the consolidated financial statements.

Auditors' Report

The Shareholders,
Kaiser Resources Ltd.

We have examined the consolidated balance sheet of Kaiser Resources Ltd. and its subsidiaries as at December 31, 1975 and 1974 and the consolidated statements of shareholders' equity, earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Vancouver, B.C.,
January 22, 1976.

(March 24, 1976 as to Note O)

Touche Ross & Co.
Chartered Accountants.

Notes to the Consolidated Financial Statements

December 31, 1975 and 1974

Note A — Summary of Significant Accounting Policies

Accounting Principles

The Company is incorporated under the Companies Act of the Province of British Columbia and prepares its accounts in accordance with generally accepted accounting principles followed in Canada.

Principles of Consolidation

The consolidated financial statements include the accounts of Kaiser Resources Ltd. and its wholly-owned subsidiaries, Westshore Terminals Ltd., Kootenay Coal Contractors Ltd. and Mountain View Realty Limited. Operations of Kootenay Coal Contractors Ltd. and Mountain View Realty Limited were transferred to the parent company upon their liquidation in 1975. Inter-company transactions and accounts have been eliminated. The investment in Kaiser Coal Canada Ltd., a 70 percent owned joint venture company formed to perform the feasibility work on a potential new mine on the Company's property, is accounted for on a cost basis.

Translation of Foreign Currency

Current assets and current liabilities in foreign currencies are translated at rates of exchange in effect at year end. Non-current assets are translated at rates of exchange in effect on the date of acquisition and long-term debt obligations are translated at rates in effect on the dates liabilities were incurred. Provisions for loss from exchange rate fluctuations and gains and losses realized on transactions completed during the year are included in earnings.

Inventories

Inventories of coal and coke are valued at the lower of average cost and net realizable value. Depreciation, depletion and amortization of preproduction and development costs are not included in the determination of product costs. Inventories of operating supplies are valued at average cost.

Depreciation, Depletion and Amortization

Property, plant and equipment is depreciated on a straight-line basis over the lesser of the estimated useful life of each asset or the remaining life of the sales contract with Mitsubishi Corporation expiring on March 31, 1985.

Expenditures for repairs and maintenance are charged against earnings. Costs of assets sold, retired or abandoned and the related amounts of accumulated depreciation are eliminated from the accounts in the year of disposition. Gains or losses resulting from such dispositions are included in earnings.

Depletion of coal land is provided at the rate of 10 cents per short ton of raw coal mined.

Deferred preproduction and development costs are amortized on a straight-line basis over the term of the 15-year sales contract with Mitsubishi Corporation.

Income Taxes

Income taxes are provided on the basis of income reported by each company included in the consolidation. Earned depletion benefits are reflected as a tax rate reduction in the year claimed. Tax reductions realized from the application of loss carry-forwards from prior years are recorded as extraordinary items.

Note B — Sales

The Company's principal source of revenue is the sale of metallurgical coal to Mitsubishi Corporation under a long-term contract effective through March 31, 1985 for the production of steel in Japan. The contract provides for escalation of costs and also permits price renegotiations effective April 1, 1976 and April 1, 1980, subject to binding arbitration if the parties are unable to agree.

Changes in the price per long ton of coal delivered under the contract during the last two years are summarized below:

	1975	1974
Price at January 1	$ 30.24	$ 20.25
Negotiated price increases	17.16	5.10
Cost escalation	5.00	4.89
Price at December 31	$ 52.40	$ 30.24

Note C — Inventories

	1975	1974
Clean coal and coke ..	$ 15,540,024	$ 3,921,078
Raw coal	207,296	788,951
Operating supplies (less allowances for shrinkage and obsolescence of $887,738 in 1975 and $807,401 in 1974) ...	12,702,214	8,276,428
	$ 28,449,534	$ 12,986,457

Note D — Long-Term Debt

	1975	1974
Canadian Bank Credit Agreement, unsecured, interest at ½% over Canadian prime rate, repayable in quarterly installments ending in 1978. (Two installments were prepaid as of December 31, 1975 and 1974)	$ 11,250,000	$ 15,750,000
Bank Credit Agreement with Bank of America National Trust and Savings Association and United California Bank, unsecured, interest at 1½% over U.S. prime, balance of U.S. $6,900,000, repayable in quarterly installments ending in 1978	7,244,759	9,659,678
Other	484,785	3,328,119
Total	18,979,544	28,737,797
Less: Installments due within one year	6,929,825	7,499,307
	$ 12,049,719	$ 21,238,490

Long-term debt maturities for the years ending December 31, 1976 through 1980 are $6,930,000, $6,925,000, $4,676,000, $11,000 and $12,000, respectively.

Note E — Capital Stock

Warrants, which entitle public shareholders to purchase 2,500,000 shares at a price of $2.85 per share, were issued in 1974 by the Company as part of the 1973 Refinancing Program. The warrants are transferable and expire on December 31, 1976. Warrants representing 816,423 shares were unexercised at December 31, 1975. At December 31, 1974, 2,488,468 warrants were unexercised.

In 1973 the Company established a stock option program for officers and salaried employees. Option prices are based on the average of the high and low market price of shares traded on the Toronto Stock Exchange on the date of grant. At December 31, 1975, there were options outstanding to purchase 155,400 shares at prices ranging from $3.15 to $10.13 per share through December 1, 1980. At December 31, 1974 options to purchase 343,900 shares were unexercised.

In 1975 Kaiser Steel Corporation, through a secondary offering in Canada, sold 2,000,000 of the shares it held in Kaiser Resources Ltd. Kaiser Steel Corporation's ownership interest in the Company was 47.1% at December 31, 1975 as compared with 59.3% at December 31, 1974.

Note F — Application of Accumulated Deficit as of June 30, 1973 to Contributed Surplus

In 1973 the Company applied the accumulated deficit as of June 30, 1973 of $32,322,752 against contributed surplus in accordance with the equity purchase agreements executed in 1973 with Mitsubishi Corporation and nine other Japanese companies.

Note G — Restriction on Dividends

The Company is restricted to a maximum annual dividend of $.80 per share in the twelve-month period ending October 13, 1976 under the Anti-Inflation Act (Note M). The degree of restriction that will apply to dividend payments subsequent to that date has not as yet been announced by the government.

Note H — Commitments and Contingencies

The Company is obligated to pay to Mitsubishi Canada Limited a service fee of $.10 per long ton of coal shipped to Japan under the export sales contract with Mitsubishi Corporation. Service fees incurred were $470,458 in 1975 and $486,209 in 1974.

Under the hydraulic mining license agreement between the Company and Mitsui Mining Company, Limited which extends until 1992, the Company is committed to pay a royalty of U.S. $.30 per clean long ton on coal produced by the hydraulic mining method. The Company will receive a paid-up license when a total of U.S. $9,000,000 has been paid to Mitsui by the Company and its affiliates. As of December 31, 1975, U.S. $452,505 has been paid under this agreement.

The Company through its wholly-owned subsidiary, Westshore Terminals Ltd., has a lease with the National Harbours Board, terminating March 31, 1985 with two 15-year renewal options, for land used as a coal loading terminal at Roberts Bank. The annual rental is based on a fixed charge of $276,974 plus a variable fee based on tonnage handled by the terminal. Lease expense was $397,089 in 1975 and $392,440 in 1974.

On June 28, 1974, the Company entered into an exploration agreement with Mitsui Mining Company, Limited and Mitsubishi Corporation to conduct a feasibility study to develop a new mining project on the Company's property capable of producing approximately 1,500,000 to 2,000,000 long tons of clean metallurgical coal per year. If the project proves feasible, the Company will be obligated to contribute 50% of the equity capital required to develop the project in exchange for an ownership interest of 70%. If the project does not prove feasible, or the parties agree not to proceed, the Company has agreed to participate in the investigation of another area on its property and, if feasible, develop a project under terms and conditions similar to those contained in the exploration agreement. The Company has agreed that it will not conduct hydraulic mining with any party other than Mitsui on its existing properties and will not use the hydraulic mining method except for coal produced for processing at the Elkview Plant until a commercial hydraulic mine joint venture is formed with Mitsui. Kaiser Coal Canada Ltd. was incorporated on July 12, 1974 to conduct the exploration and feasibility program. The Company has invested $1,000,000 in the joint venture as of December 31, 1975 and has committed to contribute an additional $812,000 in the first quarter of 1976.

Commencing January 1, 1977, the Company will be obligated to make production payments to Crows Nest Industries Limited in the amount of $.50 per short ton of coal mined and shipped from the property until an aggregate amount of $34,000,000 is paid.

Note I — Provision for Income Taxes

Tax provisions for 1975 and 1974 consisted of the following:

	1975	1974
Current:		
Federal and Provincial Income Tax ...	$ 30,221,000	$ 10,726,000
British Columbia Mining Tax	10,749,000	955,000
	40,970,000	11,681,000
Deferred:		
Federal and Provincial Income Tax ...	9,637,000	—
British Columbia Mining Tax	3,646,000	2,305,000
	13,283,000	2,305,000
Total	$ 54,253,000	$ 13,986,000

The 1975 tax provision reflects the application of $20,400,000 accumulated "earned depletion" benefits representing all such benefits earned by the Company as of December 31, 1975. As a result of this application, the effective tax rate of the Company in 1975 was reduced from 52.4% to 45.9%. The effective tax rate in 1974 was 52.5%.

Deferred income and mining taxes have resulted from claiming depreciation of fixed assets and amortization of preproduction and development costs for tax purposes in excess of amounts recorded in the financial statements.

The application of accounting loss carry-forwards resulted in the recovery of income taxes in the amount of $7,229,000 in 1975 and of both income and mining taxes in the amount of $11,496,000 in 1974 (Note J). All accounting loss carry-forwards have been fully utilized at December 31, 1975.

Note J — Extraordinary Items

Extraordinary items in 1975 and 1974 represent the reduction of income taxes otherwise payable due to the application of loss carry-forwards. This treatment is in accordance with accounting principles generally accepted in Canada. For purposes of reporting to U.S. shareholders, however, Opinion No. 11 of the Accounting Principles Board of the American Institute of Certified Public Accountants would require such amounts instead to be included in contributed surplus.

Note K — Earnings Per Share

Basic earnings per share are calculated on the weighted average number of shares outstanding during the year of 25,157,749 in 1975 and 23,954,103 in 1974. Fully diluted earnings per share are calculated on the assumption that all stock options and warrants outstanding were exercised at the beginning of the year or the date of grant in the year, if later, and that funds derived therefrom had been invested at a representative interest rate for the year. This results in an increase after income taxes of approximately $122,000 in earnings for 1975 and $500,000 in 1974 for purposes of this calculation.

Note L — Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid to directors and senior officers amounted to $874,712 for 1975 and $887,320 for 1974.

Note M — Anti-Inflation Legislation

The Company is subject to the Anti-Inflation Act which imposes price and income restraints on certain companies in Canada. The Act was given Royal Assent on December 15, 1975 with retroactive effect from October 14, 1975 and is expected to extend through December 31, 1978. The Anti-Inflation Act imposes restraints on employee compensation, domestic prices and profit margins and dividend payments to shareholders (Note G).

On December 18, 1975, the Federal Government tabled a Notice of Ways and Means Motion to provide for an anti-inflation levy to apply to excess profit margins on export sales made after October 31, 1975 and issued a Communique describing the proposed legislation and regulations. Based upon (i) the regulations under the Anti-Inflation Act and (ii) the statements in the Notice of Ways and Means Motion and the Communique and the assumption that these statements will be implemented by legislation and regulations, the Company has concluded that no provision for the anti-inflation levy is required in its accounts for 1975.

Note N — Labour Contract

The collective agreements between the Company and the United Mine Workers of America, Local 7292 and the Office and Technical Employees' Union, Local 378 expired on December 31, 1975. Negotiations for new contracts are currently in process.

Note O — Subsequent Events

On February 26, 1976, the Federal Government announced its decision not to implement the provisions of the Notice of Ways and Means Motion and the Communique issued with respect to the proposed legislation and regulations relating to an anti-inflation levy on excess profit margins earned on export sales (Note M).

On March 3, 1976 and March 12, 1976, the Company concluded new two-year collective agreements with the United Mine Workers of America, Local 7292, and the Office and Technical Employees' Union, Local 378 (Note N). The agreements have been ratified by the members of the respective unions but will have to be reviewed by the Anti-Inflation Board for compliance with the compensation guidelines of the Anti-Inflation Act.

Five-Year Review

(Thousands of dollars except for share statistics)	1975	1974	1973	1972	1971
Coal Shipments — 000 Tons					
Metallurgical coal	4,971	4,969	4,675	4,046	3,634
Thermal coal	489	329	70	102	247
Coke and breeze	133	161	169	141	134
	5,593	5,459	4,914	4,289	4,015
Summary of Earnings (Loss)					
Sales	$259,870	142,597	97,439	81,657	68,934
Other income, net	5,564	3,997	2,385	1,223	1,365
	$265,434	146,594	99,824	82,880	70,299
Cost of products sold	111,053	87,327	66,147	58,318	58,189
General and administrative	18,332	12,300	8,127	7,474	7,260
Interest	2,535	5,875	8,203	8,623	7,872
Depreciation and depletion	13,661	12,850	12,321	12,582	10,559
Amortization of preproduction and development costs	1,600	1,594	1,507	1,540	1,767
Earnings (loss) before provision for income taxes and extraordinary items	$118,253	26,648	3,519	(5,657)	(15,348)
Provision for income taxes	54,253	13,986	735	—	—
Extraordinary items	7,229 (1)	11,496 (1)	694 (1)	(7,363) (2)	—
Net earnings (loss)	$ 71,229	24,158	3,478	(13,020)	(15,348)
Weighted average number of shares outstanding — thousands	25,158	23,954	15,917	10,000	10,000
Share Statistics					
Net earnings (loss):					
Before extraordinary items	$ 2.54	.53	.18	(.56)	(1.53)
Extraordinary items	.29	.48	.04	(.74)	—
	$ 2.83	1.01	.22	(1.30)	(1.53)
Dividends	$ .75	—	—	—	—
Book value at year end	$ 6.85	4.99	3.99	3.70	5.00
Market price — TSE					
Common stock — high	$12.75	5.38	5.75	4.75	8.25
— low	$ 4.90	3.00	2.00	1.80	3.65
Warrants — high	$ 9.88	2.60	—	—	—
— low	$ 2.28	1.10	—	—	—
Other Financial Data					
Cash flow	$ 99,340	40,604	17,338	8,849	(2,065)
Working capital	$ 66,315	11,517	4,376	(21,086)	(7,200)
Capital expenditures	$ 21,416	10,186	9,453	7,166	22,793
Total assets	$261,869	163,511	160,985	160,285	170,442
Total long-term debt	$ 18,980	28,738	57,442	109,367	110,998
Shareholders' equity	$177,564	119,625	95,434	36,955	49,975
Shareholders at year end	5,390	3,957	3,810	3,576	3,339
Employees at year end	2,008	1,960	1,725	1,593	1,439

Notes: (1) Reduction of income taxes otherwise payable due to the application of loss carry-forwards.
(2) Provision for loss on sale and abandonment of certain equipment and facilities.

Analysis of Summary of Earnings

The following are the principal reasons for significant variations in revenue and expense reported for each of the years 1975 and 1974, as compared with the immediately preceding year:

Sales

Sales in 1975 increased by 82% principally as a result of higher prices for the Company's products. The price per ton for metallurgical coal exported to Japan increased from $30.24 to $52.40 during 1975.

Sales in 1974 rose by 46% as a result of higher prices and increased coal shipments. Metallurgical coal shipped to Japan increased in price from $20.25 to $30.24 per ton during 1974. The volume of all coal shipments increased by 11% in the year.

Other Income

The substantial increases in other income in 1975 and 1974 were attributable primarily to interest earnings from the investment of cash balances.

Cost of Products Sold

Cost of products sold rose by 27% in 1975 and 32% in 1974 principally as a result of inflationary pressures on costs of labor, materials and utilities. The most significant increases in materials costs were for equipment parts, fuel, lubricants and explosives.

General and Administrative Expense

General and administrative expense increased by 49% in 1975 mainly as a result of higher mineral land taxes, corporation capital taxes, property taxes and administrative salaries. Increased exploration activities on the Company's properties also contributed to the higher costs incurred during the year.

The introduction of mineral land taxes in 1974 was the principal reason for the 51% increase in general and administrative expense for that year.

Interest Expense

Interest expense decreased by 57% in 1975 principally as a result of the substantial repayments of debt made in the second half of 1974. Debt was reduced by $28.7 million in that year and included the retirement of $17.3 million of debt ahead of its scheduled maturity.

The substantial repayment of debt made as part of the 1973 refinancing program was the principal reason for the decline in interest expense in 1974.

Extraordinary Items

The extraordinary income items in 1975 and 1974 reflect the reduction in income taxes otherwise payable for those years as a result of the application of prior years' loss carry-forwards. Loss carry-forwards were fully utilized in 1975.

Quarterly Financial Data and Market Quotations

(Thousands of dollars except for share statistics)

	1975 Quarters				1974 Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Financial Data (Unaudited)								
Coal shipments — 000 tons	1,317	1,307	1,576	1,393	1,447	1,405	1,288	1,319
Sales	$ 49,189	64,312	77,629	68,740	30,834	35,544	36,488	39,731
Earnings before extraordinary items	$ 9,400	16,799	20,512	17,289	1,477	2,233	3,152	5,800
Net earnings	$ 15,221	18,207	20,512	17,289	3,158	5,652	6,785	8,563
Weighted average number of shares outstanding — 000	24,213	24,993	25,633	25,809	23,947	23,953	23,957	23,958
Net earnings per share:								
Before extraordinary items	$ .39	.67	.80	.67	.06	.10	.13	.24
Extraordinary items	.24	.06	—	—	.07	.14	.15	.12
	$ .63	.73	.80	.67	.13	.24	.28	.36
Dividends	$ .15	.20	.20	.20	—	—	—	—
Market Quotations — TSE								
Stock — high	$ 9.00	11.50	12.75	11.88	5.38	4.70	4.35	5.25
— low	$ 4.90	8.38	10.00	9.38	3.05	3.50	3.00	3.25
Warrants — high	$ 6.25	8.50	9.88	9.00	1.90	2.08	2.00	2.60
— low	$ 2.28	5.50	7.13	6.50	1.15	1.51	1.10	1.20

Directors

Edgar F. Kaiser*
Chairman, Kaiser Resources Ltd., Vancouver
Chairman, Kaiser Industries Corporation, Oakland, California (diversified company engaged principally in worldwide engineering, construction, mining and manufacturing activities)

Graham R. Dawson*
Vice-Chairman, Kaiser Resources Ltd.
President, Dawson Construction Limited
Vancouver (heavy construction contractors)

Edgar F. Kaiser, Jr.*
Chairman of the Executive Committee
President and Chief Executive Officer, Kaiser Resources Ltd., Vancouver

Howard E. Cadinha
Vice-President, Finance and Planning
Kaiser Resources Ltd., Vancouver

Paul G. Desmarais
Chairman and Chief Executive Officer
Power Corporation of Canada Limited, Montreal (investment and management company)

Stephen A. Girard
President, Group Operations
Kaiser Industries Corporation, Oakland, California

Roger T. Hager*
Retired Chairman
The Canadian Fishing Company Limited, Vancouver (fish processing)

Enji Haseo
Managing Director, Ferrous Metals
Mitsubishi Corporation, Tokyo (trading company)

George A. Jedenoff
President and Chief Operating Officer
Kaiser Steel Corporation, Oakland, California (major western U.S. steel producer also engaged in mining and shipping)

Roland A. Kjelland†
Executive Vice-President, Group Operations
Kaiser Industries Corporation, Oakland, California

Robert W. MacPhail
Executive Vice-President, Operations
Kaiser Resources Ltd., Vancouver

Ian N. McKinnon†
Chairman
Consolidated Pipe Lines Company and Consolidated Natural Gas Company Limited, Calgary (transportation, purchase and sale of natural gas)

John W. Poole
President and Chief Executive Officer
Daon Development Corporation, Vancouver (real estate development)

Edward A. Tory
Partner, Campbell, Godfrey & Lewtas
Toronto (barristers and solicitors)

E. D. H. Wilkinson, Q.C.†
Partner, Russell & DuMoulin
Vancouver (barristers and solicitors)

* Member of the Executive Committee
† Member of the Audit Committee

Officers

Edgar F. Kaiser
Chairman of the Board

Graham R. Dawson
Vice-Chairman of the Board

Edgar F. Kaiser, Jr.
Chairman of the Executive Committee
President and Chief Executive Officer

Robert W. MacPhail
Executive Vice-President, Operations

Howard E. Cadinha
Vice-President, Finance and Planning

Robert H. Gronotte
Vice-President, Engineering

John H. Harvie
Vice-President, Marketing and Sales

John E. Heffernan
Vice-President, Terminal Operations and Traffic

Ward P. Popenoe
Vice-President, Administration and Assistant Secretary

Walter J. Riva
Vice-President, Mining Operations

Christopher H. Hebb
Chief Counsel and Secretary

Peter M. Bradbury
Treasurer

Bent H. Larsen
Controller

The Board of Directors wishes to acknowledge with appreciation the services rendered to the Company by William B. Macdonald, a director from April 21, 1970 until his retirement on April 9, 1976.

Auditors
Touche Ross & Co.
Vancouver

Transfer Agent
Canada Permanent Trust Company
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal

Registrar
National Trust Company Limited
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal

Shares Listed
Vancouver, Toronto and Montreal Stock Exchanges

KAISER
RESOURCES

LITHO'D IN CANADA
AGENCY PRESS LIMITED
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KAISER RESOURCES LTD.
CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

(In Thousands of Dollars)

	Three Months Ended June 30		Six Months Ended June 30	
	1975	1974(A)	1975	1974(A)
Sales	$ 64,312	$ 35,544	$113,501	$ 66,378
Other income — net	832	903	1,469	1,885
	65,144	36,447	114,970	68,263
Cost of products sold	25,821	22,123	49,762	42,892
General and administrative (B)	4,406	3,106	8,372	5,904
Interest on long-term debt	650	1,599	1,406	3,127
Depreciation and depletion	3,351	3,258	6,682	6,400
Amortization of preproduction and developments costs	400	398	800	795
Earnings before provision for income taxes and extraordinary item	30,516	5,963	47,948	9,145
Provision for income taxes	13,717	3,730	21,749	5,435
Earnings before extraordinary item	16,799	2,233	26,199	3,710
Extraordinary income tax credit due to loss-carry-forward	1,408	3,419	7,229	5,100
Net earnings	$ 18,207	$ 5,652	$ 33,428	$ 8,810
Weighted average number of shares outstanding (in thousands)	24,993	23,953	24,605	23,951
Net earnings per common share:				
Basic earnings:				
Before extraordinary item	$ .67	$ .10	$ 1.06	$ .16
Extraordinary item	.06	.14	.30	.21
Net earnings	$ .73	$ .24	$ 1.36	$ .37
Fully diluted earnings:				
Before extraordinary item	$ .63		$ .98	
Extraordinary item	.05		.27	
Net earnings	$ .68		$ 1.25	

Notes: (A) Reclassified on a basis comparable to 1975.
(B) Includes property and mineral land taxes.

KAISER RESOURCES LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

(In Thousands of Dollars)

	Six Months Ended June 30	
	1975	1974
Source of Funds:		
Earnings before extraordinary item	$26,199	$ 3,710
Items not requiring an outlay of funds:		
Depreciation and depletion	6,682	6,400
Amortization of preproduction and development costs	800	795
Provision for income taxes	10,449	5,387
Total funds provided by operations	44,130	16,292
Issuance of capital stock	4,594	25
Proceeds from sale of equipment	172	1,681
Total source of funds	48,896	17,998
Application of Funds:		
Purchase of property, plant and equipment and other assets	8,421	3,440
Reduction in non-current portion of long-term debt	3,495	11,607
Dividends	8,810	—
Total application of funds	20,726	15,047
Net increase in working capital	28,170	2,951
Working capital at beginning of period	11,517	4,376
Working capital at end of period	$39,687	$ 7,327

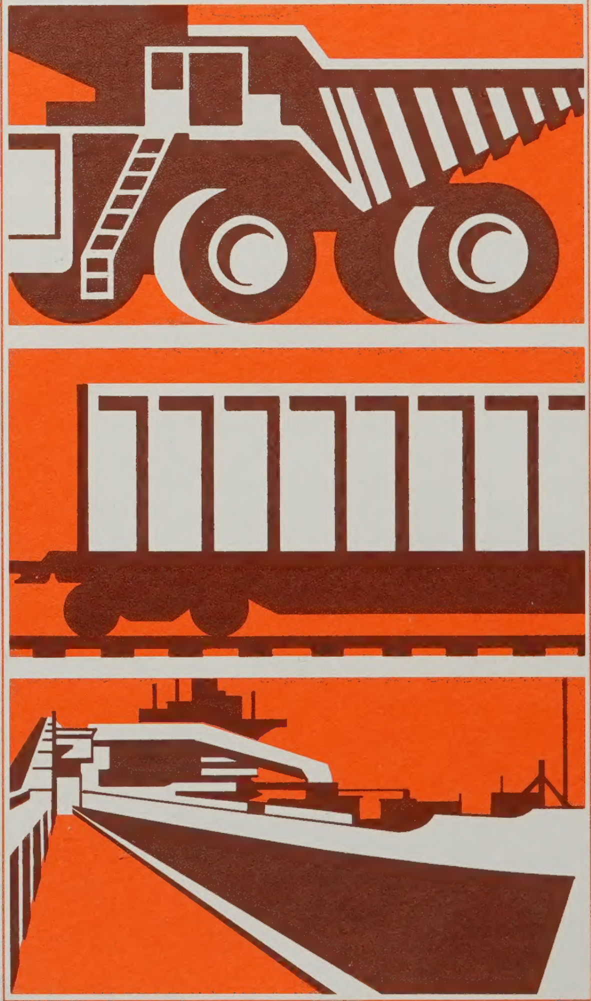
On behalf of the Board:
Edgar F. Kaiser, Jr., Director.
Ian N. McKinnon, Director.

WESTERN MINER PRESS LTD.

KAISER RESOURCES

File

Report to Shareholders First Half of 1975



TO OUR SHAREHOLDERS:

The Company had consolidated net earnings of $18,207,000 or 73 cents per share on sales of $64,312,000 in the second quarter of 1975. The results included extraordinary income of $1,408,000 or six cents per share from tax losses carried forward. Earnings per share were based on a weighted average of 24,993,000 shares outstanding during the period.

For the comparable period of 1974, the Company had consolidated net earnings of $5,652,000 or 24 cents per share, including extraordinary income of $3,419,000 or 14 cents per share from tax losses carried forward. Per share earnings for that quarter were based on a weighted average of 23,953,000 shares outstanding. Sales were $35,544,000.

In the first six months of this year, the Company had consolidated net earnings of $33,428,000 including extraordinary income of $7,229,000 from tax losses carried forward, on sales of $113,501,000. The results are equivalent to $1.36 per share, including 30 cents from the extraordinary item, based on a weighted average of 24,605,000 shares outstanding during the half.

In the first half of 1974, the Company had consolidated net earnings of $8,810,000, including extraordinary income of $5,100,000 from tax losses carried forward, on sales of $66,378,000. Those results were equivalent to 37 cents per share based on a weighted average of 23,951,000 shares outstanding, and included 21 cents from the extraordinary item.

The improvement in earnings for the second quarter over the comparable period last year is attributable primarily to higher coal prices and to a lower effective income tax rate resulting principally from earned depletion benefits. Extraordinary income tax credits relating to the application of prior years' loss carry-forwards were exhausted during the quarter.

Shipments of coking coal to Japan under the Company's long-term sales contract totalled 1,081,000 long tons during the second quarter, compared with 1,229,000 long tons in the same quarter of 1974.

The Company's coal inventory at the Roberts Bank port, which was depleted at the end of the first quarter of this year, increased to 306,000 long tons at June 30, 1975. The increase resulted from improved rail service, increased production at the Company's Sparwood, B.C. mining and processing operations, and a lower level of shipments due to the late arrival of a large vessel. During the quarter, the Company's Elkview preparation plant produced 1,430,000 long tons of clean metallurgical coal, compared with 1,240,000 long tons in the second quarter of 1974.

In May, the Company reached an agreement with its Japanese customers for a further base price increase of $1.00 per long ton for metallurgical coal shipped to Japan, effective April 1, 1975. This amount is in addition to the previously announced base price increase of $16.16 per long ton, which was also effective April 1.

Under the latest agreement, escalation applications are permitted for cost increases in labor, materials and taxes other than mineral land taxes for the period April 1, 1975 through March 31, 1976, subject to a ceiling of $3.00. Mitsubishi Corporation has agreed to use its best efforts to fully cover any escalation in costs above the ceiling for the period ending March 31, 1976, but such matters will require further discussion. Escalation will continue to be allowed outside the ceiling to fully cover cost increases in mineral land taxes, rail freight and port costs.

Under the Mineral Land Tax Act of British Columbia, the Company recently paid a tax of $1.00 for each long ton of clean coal shipped from the mine during 1974. Next year this tax will increase to $1.50 per long ton and will be based on 1975 shipments. The Company has been advised by the provincial government that its mineral land taxes will not be increased before 1976 and that any increase will be made in consultation with the Company.

As of July 25, the Company was receiving $49.89 per long ton for coking coal shipped to Japan. The long-term sales contract provides for the next price review to become effective April 1, 1976.

During the second quarter, the Company concluded an agreement for the sale of 100,000 long tons of oxidized coal per year for a period of 10 years to Sumitomo Metal Industries, Limited of Japan. The first shipment will be made late this year. The oxidized or thermal coal will be used in a new coke-making process developed by Sumitomo, and will be sold under a contract which provides for annual price reviews.

The Company has concluded agreements to sell a total of approximately 200,000 short tons of metallurgical coal this year to The Steel Company of Canada, Limited and Dominion Foundries and Steel, Limited, both of Hamilton, Ontario. A total of 60,000 short tons was shipped to the two companies in 1974. The Company had not expected to be in a position to ship large tonnages east until 1976. However, the new sales were made possible as a result of improved coal recovery techniques in surface mining operations, which have provided additional coal inventories.

On June 26, 1975, Kaiser Steel Corporation announced that it had decided to sell to the Canadian public 2,000,000 of its shares in the Company. Subject to favorable market conditions at the time, the sale is expected to be made in late summer or early fall through a group of investment bankers led by A.E. Ames & Co. of Toronto. As stated previously, increased Canadian public ownership in Kaiser Resources as a result of a sale of shares by Kaiser Steel is considered to be in the long-term interests of the Company's shareholders.

After exercise of publicly-held warrants and stock options held by officers and employees, Kaiser Steel Corporation's sale of 2,000,000 shares would reduce its ownership in Kaiser Resources from 53 percent to 45.6 percent and would increase public ownership from 20 percent to 27.4 percent. The remaining shares in the Company are held by the Company's Japanese customers.

During the second quarter of 1975, warrants representing 557,072 shares and stock options representing 157,580 shares were exercised, increasing the total shares issued at June 30, 1975 to 25,480,332.

On June 30, 1975, the Company paid a quarterly dividend of 20 cents per common share to shareholders of record at the close of business on June 20, 1975, an increase of five cents over the Company's first dividend paid in the first quarter of the year.

July 25, 1975

Edgar F. Kaiser,
Chairman

Edgar F. Kaiser, Jr.,
President and Chief
Executive Officer

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